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**European Review**

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**19 June 1985**

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**European Review**

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**Bulgaria: The BIEA and Economic Reform**

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Sofia's New Economic Mechanism, a modest reform program launched in response to stagnating economic growth in the late 1970s, proposes measured decentralization of enterprise decisionmaking to improve economic efficiency. Although concrete steps fall short of Bulgarian rhetoric about reform, one significant step was the creation in 1980 of the Bulgarian Industrial Economic Association (BIEA). The influence of the BIEA's young, technocratic reformers apparently is on the rise, despite foot-dragging by the old-line bureaucracy.

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*Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors, whose phone*

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**Briefs****Netherlands****Christian Democrats Publish Draft Election Platform**

In an attempt to promote party unity, the Dutch Christian Democratic Party (CDA) has broken with recent precedent and published a draft election platform nearly a year before the election due in May 1986. By publishing their manifesto before candidate selection, CDA leaders apparently want to lessen the possibility of party candidates dissociating themselves from the platform (or be in a position to punish those who do)—an event that occurred over INF in the election campaign in 1982. On economic issues, the platform calls for more moderate budget cutting and pledges the CDA to greater job creation efforts. According to US officials, this economic tack is flexible enough to provide a basis for continuing the current CDA-Liberal (VVD) coalition, but might also permit the CDA to govern with the opposition Labor Party (PVDA).

More controversial is the platform's provisions on security issues. It is strongly pro-NATO, reasserts support for the government's June formula tying a positive INF decision to Soviet deployments, and maintains the link between INF deployment and reducing Dutch nuclear tasks. The CDA's INF position would permit a renewed coalition with the VVD, but makes a similar arrangement with the PVDA much more difficult, given Labor's unwavering hostility to INF. At the moment, however, coalition-building problems are two steps away, as the CDA must now prevent debilitating intraparty bickering on security issues before the fall party congress votes on the platform on the eve of the government's "final" INF decision in November. Although CDA leaders believe that the platform's publication will promote party unity, there remains a chance that the lengthy period of pre-congress discussion will keep the INF pot boiling among the party's rank and file, thereby creating one more source of predeployment jitters for an already nervous government.

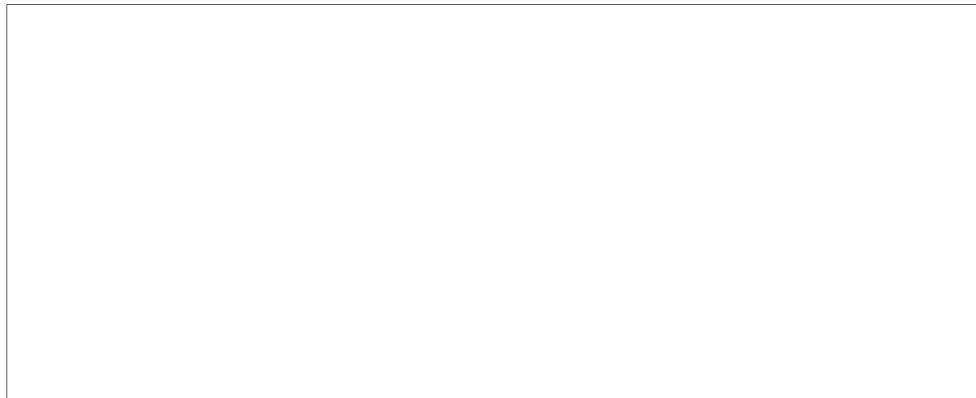
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**United Kingdom-Greece      Refusal To Refuel Royal Navy Auxiliary** 

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According to the US Mission to NATO, the United Kingdom will continue to press Athens on its refusal in May to grant the merchant ship "Green Rover" access to British fuel stored at the NATO depot at Souda Bay in Crete. The ship, along with US, British, and Turkish naval units, had participated in the annual spring NATO exercise in the eastern Mediterranean and the Aegean. Athens's refusal to allow the ship to refuel stems from its decision not to participate in NATO exercises in the Aegean unless Limnos is included.

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The fuel depot at Souda Bay was constructed under the NATO infrastructure program to provide refueling facilities for allied ships. British access to the depot is governed by a 1961 agreement between the Greek and Royal Navies, which Greece reaffirmed in a 1975 infrastructure improvement agreement. Proper notice was given of the ship's intention to withdraw fuel. Athens at first gave approval, but then withdrew it, according to the US Mission to NATO, on grounds that the "Green Rover" could be considered to be a naval unit, given its support mission in the NATO exercise. Athens claimed that it was not appropriate for a ship participating in a NATO exercise to visit a Greek port when Greece was not participating in the operation. London, according to the US Mission at NATO, intends to seek US support in a call for the Greeks to account for their refusal to honor the access and infrastructure arrangements.

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**Poland      Economic Reform Conference** 

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Polish officials at a party meeting at the beginning of June endorsed major changes in the economic reform program that would increase the role of the central government in planning and implementing economic policy. The decision is a retreat from the principles of the 1982 reforms that decentralized decisionmaking to allow firms more responsibility in areas ranging from wages to production. Deputy Premier Messner in his speech at the conference said that the government would not return to a strict type of prereform centralized management, but would maintain and even broaden the state's role in planning

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and implementing economic strategy. Premier Jaruzelski paid lipservice to reform—most likely to impress Western creditors and the IMF—but endorsed Messner's statements concerning strengthening the role of the central government and compared Polish reform to policy changes in other socialist countries, especially the USSR. Other speakers at the meeting confirmed rumors that reform opponents had gained strength in the past year, because of poor performance of some sectors experimenting with the reform and the growing belief that economic recovery demands discipline, not decentralization. Even before the conference, prospects for the reform were dim largely due to the regime's reluctance to take such politically difficult steps as linking wage increases to productivity gains. Moreover, officials are concerned about losing power, and managers are reluctant to take on increased responsibility.

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## Articles

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### The IEPG: A Forum for Arms Cooperation?

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The Independent European Program Group (IEPG), formed in 1976 to promote defense industrial cooperation among the European Allies, has not lived up to expectations in part because of its ad hoc nature, but also because its members have many competing interests. Of the many attempts to mold the IEPG into a more influential organization, the current effort by its Dutch chairman, Jan van Houwelingen, is the most aggressive. Van Houwelingen is pushing for much closer, formal coordination of intra-European programs as well as a stronger IEPG role in US-European consultations—a goal reflecting the European conviction that the United States does not cooperate fully in procuring and coproducing weapon systems (the “two-way street”). We expect progress to be slow as Europeans continue to pursue national objectives through bilateral negotiations with the United States or other European countries.

#### Goals and Structure

The IEPG was created to promote armaments cooperation among the European members of NATO and to foster closer, more balanced cooperation with the United States and Canada. It is independent of NATO but includes all of the European Allies—except Iceland, which has no indigenous defense forces. Thus, the IEPG provides a convenient forum for the French to participate in European discussions of defense industrial cooperation.

The ultimate goal of the IEPG is, through voluntary cooperation, to organize European defense industries and markets to a scale more nearly comparable with those of the United States and ultimately to redress the disparity in defense procurement that currently favors the United States. To date, however, the IEPG has been largely unsuccessful, mainly because the members have not made the political commitments necessary to give the organization political clout.

#### Political Meetings

The IEPG has no permanent organization. Instead, it operates through regular meetings at the political level and at a technical or procedural level. The political meetings usually take place once a year at the ministerial level. The chairmanship, currently held by the Netherlands, rotates every two years. Although its tenure is scheduled to end next year, there are some indications the Europeans will ask van Houwelingen to stay on his job.

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Some Europeans have attempted to turn the IEPG into an influential organization, but none has been as aggressive as van Houwelingen, the State Secretary in the Dutch Ministry of Defense. Because the IEPG ministerial meetings are designed to provide political guidance to the organization's work, van Houwelingen appears to believe the meetings can only be effective if defense ministers attend and offer national commitments. In the past, ministers have not always participated, and the atmosphere has seldom been conducive to reaching key political agreements.

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Technical-level meetings are held twice a year. Representatives of national armaments directors coordinate the activities of three panels, and their subordinate working groups analyze major equipment requirements of IEPG members, examine opportunities for collaboration, and develop guidelines for IEPG projects. None of the member nations has assigned personnel to the IEPG on a full-time basis, and most work is done by the national armaments directors' representatives (NADREP) at NATO headquarters in Brussels. Membership in the panels and working groups is determined on an ad hoc basis depending on national interest. Currently, the Dutch NADREP supervises the work of his IEPG colleagues in Brussels.

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## Major Program Initiatives

### Intra-European

*Members of the IEPG have cooperated in several defense industry programs. A leading example is the Tornado multirole combat aircraft produced by the Panavia consortium of the United Kingdom, West Germany, and Italy. In addition, the IEPG has monitored the Franco-German Alpha Jet trainer, the Franco-British Jaguar, and the Franco-Belgian-Dutch minehunter programs, as well as all major programs under the auspices of the different NATO armaments groups. None of these projects was undertaken at the behest of the IEPG, but was instead the result of bilateral or multilateral agreements in which the IEPG serves as coordinator and broker of information. In most cases, the joint project members established a committee to report to the IEPG.*

### US-European Efforts

*Cooperation between the United States and the IEPG took off in large part with a US proposal in 1979 to sell or coproduce 17 weapon systems with the Europeans. IEPG members worked together and established teaming arrangements for coproduction of several of the weapons, while individual IEPG members chose to procure several other items from the list. Perhaps the most successful coproduction project was the AIM-9L infrared air-to-air missile. As a result of an MOU signed by the United States and West Germany in 1977, Bonn heads a consortium to coproduce the AIM-9L in Europe. Specific parts for the missile are manufactured in Norway, the United Kingdom, Italy, and West Germany. The assembled missile is employed on several aircraft, including the Tornado.*

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### Dutch Campaign To Invigorate the IEPG

In a recent article, IEPG Chairman van Houwelingen made a strong case for closer European arms cooperation through the IEPG. Citing the sharper rise in the unit costs of weapon systems—which has resulted in lower procurement levels—van Houwelingen argued that closer coordination through the IEPG could help reduce duplication in R&D, and

that all members could benefit from economies of scale and greater military standardization and interoperability. He also stressed that Western Europe needs to pool its resources in order to maintain a healthy scientific and industrial base. He noted in this regard that Europe's fragmented defense industrial base makes it difficult to develop and produce weapons competitive in quality, quantity, or price.

The West Europeans recognize the potential advantages of closer defense industrial cooperation in competing with the United States, but they have been unable to agree on how to proceed. Previous intra-European arms cooperation agreements have been reached bilaterally or among a small group of nations. Attempts to coordinate European-wide endeavors have failed, however, largely because individual countries have been unwilling to subordinate what they perceive to be vital national interests to achieve broader European objectives. Defense programs carry domestic economic and industrial benefits that countries want to protect, particularly in times of economic difficulty and fiscal austerity.

In November 1984, the defense and foreign ministers of the IEPG countries met together for the first time and voiced their support for armaments cooperation. West German Defense Minister Woerner stated, for example, that, while national interests dominated in the past, IEPG ministers were more politically committed to European defense industrial cooperation. In their resolution and in the press sessions following the meeting, the ministers pledged their full support to the IEPG effort to review equipment planning and replacement schedules, and to bring significant projects to ministerial attention at an early stage, in order to ensure that possibilities for collaboration are considered from the outset. Moreover, they agreed that, if an IEPG country decides to produce or purchase a weapon on its own, it will have to explain its reasons to the other members.

### IEPG Chairman Visits Washington

When van Houwelingen visited Washington in April, he stressed the need for a more structured dialogue

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between the United States and Europe. Van Houwelingen sought US recognition of the IEPG as a single entity to represent European defense industries in discussions with the United States. The United States agreed, provided van Houwelingen could achieve agreement among the IEPG members. This matter will be discussed at an IEPG ministerial in June, although there is likely to be some resistance, particularly from the British. [REDACTED]

Van Houwelingen has also expressed an interest in having a single Memorandum of Understanding (MOU) to govern arms cooperation between the IEPG and the United States. All member nations have MOUs with the United States, and most intra-European projects have been carried out under an MOU. It is unclear, however, what the content of an MOU with the IEPG might be. Van Houwelingen described it to the US Ambassador to NATO as a framework within which to address political issues, and as a document that eventually could become the basis on which Europe could be recognized as a "most favored nation," taking priority in certain areas over other US partners such as Japan. Such an understanding would require a single European entity, however, which van Houwelingen and the Europeans have yet to build. [REDACTED]

#### Outlook

Thus far, the West Europeans have done little more than express an intent to use the IEPG to promote arms cooperation. An important test—which they failed—was their effort to prepare a coordinated European response to the US-proposed initiative to exploit emerging technologies to improve NATO conventional defense capabilities. Their initial response included a varied list of programs that suggested the Europeans had not coordinated their efforts. The US Mission to NATO reported that each nation added its own favorite national system, and that these pet projects were simply assembled and passed on to the United States. The list focused essentially on current programs, or systems under development but nearing completion, and did not look at technologies still in their infancy. After receiving a number of questions from the United States in response, IEPG members went back to the drawing board and are now making a second attempt to

prepare a response. The results were expected in March, but the IEPG has not yet reported its findings. [REDACTED]

Over the near term, the credibility of the IEPG in large measure will be dependent on its ability to prepare a sound emerging technologies report that will elicit a positive US response to its proposals for cooperative efforts. To be successful, the members will have to override their own competing national concerns in the interest of the larger cause of European cooperation. If they are unable to do so, the IEPG is likely to remain an information clearinghouse that promotes dialogue but has little material effect on defense programs. [REDACTED]

Over the longer term, the Europeans must demonstrate that they will make the necessary political commitments to turn the IEPG into a successful organization for promoting cooperation with the United States and enhancing intra-European arms cooperation. Despite the ambitious aims of the Dutch and the signs of enthusiasm among defense ministers at the most recent IEPG meeting, however, no European capital has shown any great inclination to use the IEPG to reach this goal. Until they do so, we expect them to pursue national defense industrial objectives largely through bilateral negotiations with Washington, and in small European groups. [REDACTED]

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## Eastern Europe: Reactions to China's Economic Reforms

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Seven months after Beijing proclaimed its "blueprint" for radical market-oriented reforms, the East European regimes are still keeping their true reactions largely to themselves. Even the Hungarians—whose New Economic Mechanism has been scrutinized by the Chinese—have adopted a wait-and-see attitude, at least in public commentaries. This reticence probably reflects uncertainty over Moscow's stance and a reluctance to jeopardize newly reviving Sino-East European relations. [ ]

### Media Reactions

The East European press carried vague and generally predictable commentary following Beijing's reform proclamation last October. Semiofficial news sources tended to report the Chinese plans matter-of-factly, varying from brief summaries in Hungary to lengthy excerpts in Poland. Hungary's laconic observations were only mildly supportive, despite the close resemblance of China's plans to Budapest's own reforms that began in 1968. The Hungarians may have been cautious because they are now trying to push their reforms further without arousing Soviet ire. [ ]

Less authoritative responses ranged from vague praise in Yugoslavia and Romania—the region's most vocal mavericks and champions of "independent paths" to socialism—to a sharp but somewhat confused lambasting from Bulgaria, which may have been currying Moscow's favor by defending Marxist-Leninist orthodoxy. Most surprisingly, the East German press commented favorably but restricted its praise primarily to reforms in Chinese agriculture that date back to 1978. In Czechoslovakia, the Chinese reforms drew mixed reviews, with the regime allowing publication of widely differing opinions. [ ]

Soviet media first offered some unsigned noncommittal observations, followed by indirect criticism citing Chinese and Western media reports of internal opposition to the reforms. Subsequently,

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### Key Features of Chinese Economic Reforms<sup>a</sup>

*The economic system most likely to emerge in China will mix free market regulation with central planning in a fashion similar to that of Hungary, Eastern Europe's pacesetter in innovative economic reforms.<sup>b</sup>*

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*In principle, the reforms are intended to:*

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- *Reduce the scope of mandatory production plans and increase the role of guidance plans to enable enterprises to respond to market signals.*
- *Remove government and party institutions from day-to-day business operations.*
- *Force many enterprises formerly run by the state to become independent and to compete against each other for profits, while maintaining tight state control over production and distribution of essential commodities and over most investment decisions.*
- *Allow enterprise management a greater measure of decisionmaking authority over hiring and firing, wages and bonuses, and prices.*
- *Institute a rational price system to convey market information to enterprises.* [ ]

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however, *Izvestia* published a signed article that implicitly but strongly condemned China's trend toward private enterprise in the rural and urban sectors. Without mentioning the reforms directly, the article cited Chinese media commentary on the "vicious infection" of economic crimes brought on by the introduction of market forces. [ ]

#### Off-the-Record Responses

Private comments from East European and Soviet diplomats, reported mainly by US diplomats, have been more candid than press reactions. Perhaps the best summation came from a Hungarian official who thinks the Chinese reforms could profoundly influence the future course of CEMA economies as their governments carefully monitor the effects of the reforms on Chinese economic performance. If the Chinese are successful, he said, they will demonstrate "an alternative to Soviet-style stagnation" in a Communist context. Thus, he believes the Soviets are keenly concerned that China might become a model for Eastern Europe. In addition, some Hungarian officials have confided to US diplomats their pride that the Chinese reforms emerged after long and careful study of Hungary's experience. [ ]

Other East European and Soviet officials have reacted with flippant and seemingly disingenuous responses. Soviet Bloc envoys queried in Beijing, for example, offered these varying assessments:

- An East German predicted that the Chinese would be restrained from really bold reforms by their innate conservatism, adding condescendingly that the GDR already had entrusted factory managers with a degree of authority and flexibility that the PRC is only beginning to contemplate.
- A Soviet said that the 39-page document outlining Beijing's reforms could have been cut to 3.9 pages were it not for internal disagreement implied by the numerous explanations, qualifications, and reassurances patched on to it.
- A Czechoslovak thought that the reforms did not negate the Soviet model but rather sought to deal with the massive misallocation of resources in China's economy.

- Only a Romanian hailed the reform document as a "revolutionary" step forward in the history of socialism. [ ]

In related commentary, a Yugoslav diplomat in Beijing reported that the Soviet Embassy is deeply split in its evaluation of the reforms. Moscow's ambassador and the political section are sharply critical because they see the reforms threatening the foundations of Marxism-Leninism. A group of cynical old China hands in the commercial section doubts that the reforms will be successful. Only the economic section is generally supportive of the reforms, believing that economic gains will outweigh negative political and social effects. [ ]

Six Soviet economic experts from academic and ministerial research institutes, who visited China in November and December, reportedly came away with mixed feelings. Reforms enacted since 1978 (largely in the agricultural sector) were necessary and to some extent have worked. They felt most reforms to date were in line with ideas proposed or actually carried out in several CEMA countries, although they were critical of the income differentials now arising. The group also was disturbed by some of the new urban reform ideas, feeling that the Chinese had only a hazy idea of what they were trying to accomplish. In January, Soviet banking chief Alkhimov commented favorably on Hungary's economic reforms but was noncommittal on Chinese reforms. The Chinese are taking great policy leaps, but he believed Hungary was taking the right way toward economic change. [ ]

#### Implications

China's bold scheme for a more decentralized, market-based system of economic management presents the regimes of Eastern Europe and the USSR with new economic and political challenges. If the reform package is fully implemented and proves reasonably successful, the East Europeans, in their quest for greater economic efficiency might move further to displace Soviet-type centralized management with elements of the Chinese program. Should that happen, Moscow might have greater

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difficulty keeping its allies in line on domestic and foreign policy issues as their economic interests diverge. And, despite the recent efforts at Sino-Soviet rapprochement, Moscow—confronted by a confident Chinese leadership—might again find Beijing pressing claims for leadership of the world Communist movement. [redacted]

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Moscow and its more orthodox allies undoubtedly dislike Beijing's rhetoric and are probably skeptical of the reform's direction. They are muting their public criticism, we believe, because of the recent improvement in Soviet and East European relations with China. Regimes like Hungary's and perhaps even Poland's may be more sympathetic but are not going to get out ahead of the USSR in their public statements. Private comments by East European officials probably say more about their positions in the Communist camp than about Chinese policies, although the more independent-minded are watching closely for the real degree of change and its success. [redacted]

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Despite Soviet criticism of China's growing private sector, Moscow's stance on reform issues remains unclear. The criticism may have been mainly a signal to those arguing over the merits or demerits of private enterprise in the USSR. The Kremlin may continue to treat the Chinese reforms cautiously in its public media—perhaps less because it opposes discussion of reform in the Soviet Bloc than because it does not want debate to focus on a Chinese model that questions Marxism-Leninism. [redacted]

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## Bulgaria: The BIEA and Economic Reform

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Sofia's New Economic Mechanism (NEM), a modest reform program launched in response to stagnating economic growth in the late 1970s, proposes measured decentralization of enterprise decision making to improve economic efficiency. Although concrete steps fall short of Bulgarian rhetoric about reform, one significant step was the creation in 1980 of the Bulgarian Industrial Economic Association (BIEA). The influence of the BIEA's young, technocratic reformers apparently is on the rise, despite foot-dragging by the old-line bureaucracy.

authority to enterprise managers and by expanding the role of prices that reflect real costs, realistic interest rates, and profits. The BIEA was founded to facilitate implementation of the NEM in industry and foreign trade.

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### Background to Reforms

Bulgaria enjoyed solid economic growth in the late 1960s and early 1970s, fueled by large increases in imports from the USSR and the West and by the migration of workers from agriculture to more productive jobs in industry. GNP grew at an average annual rate of 5.1 percent in 1966-70 and 4.7 percent in 1971-75.

The BIEA is officially described as a "voluntary association" of manufacturing, trade, and engineering enterprises; scientific institutes; research and development centers; technical colleges; and banks. It apparently draws talent from all these groups into one coordinating body with authority to cut across traditional bureaucratic lines. The organization is divided into four permanent offices that set and implement policy: economic analysis, industrial development, organization and management studies, and international affairs. According to the US Embassy in Sofia, BIEA member organizations account for about 75 percent of Bulgaria's industrial output. Members apparently pay dues to support BIEA activities but otherwise remain subordinate to their respective ministries.

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By the late 1970s, however, the sources of growth were dwindling. Rising energy and raw material costs, supply bottlenecks, and a shortage of skilled labor limited gains in output. The USSR began to slow the growth of energy and raw material deliveries. Financial pressures resulting from the rapid buildup of debt to the West forced Sofia to limit imports of Western capital goods and expand exports to generate hard currency trade surpluses. With resource constraints tightening, economic plans that emphasized quantitative output targets over efficiency were increasingly inappropriate. Between 1976 and 1980, economic growth slowed to an average of only 1.0 percent per year.

The BIEA's mandate is to improve efficiency and business performance largely by eliminating redtape. In the past, for example, foreign businessmen and Bulgarian buyers were not permitted to negotiate; government foreign trade organizations acted as middlemen. This both frustrated the foreigners and hindered Bulgarian industry's adjustment to outside markets. The BIEA, by contrast, promotes direct contacts with foreign businessmen. The association has established links with financial consultants in London and New York and now advises its members in joint-venture negotiations under Bulgaria's relatively liberal joint-venture laws. In addition, the BIEA is currently working to secure Japanese participation in the development of a quality-control center.

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### Emergence of the BIEA

The Zhivkov regime responded with the NEM, a program of gradual reforms first introduced in agriculture in 1979 and then into industry in 1982. The NEM was designed to make the economy more responsive to domestic and international demand—and therefore more efficient—by giving more

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**Bulgaria's New Economic Mechanism** 

*The New Economic Mechanism, introduced into agriculture in 1979 and into the rest of the economy in 1982, is the vehicle by which Sofia intends to bring about "intensive" economic development. At the heart of the NEM (which the Bulgarians insist is uniquely Bulgarian, not a copy of other East European reform programs) is the intention to improve efficiency, productivity, and quality by making the economy more responsive to changing factor costs and domestic and international market demand. The main elements of the NEM include:*

- *Significant reduction of compulsory plan indexes, leaving only broad indexes that are essential to "ensure national balances."*
- *Greater responsiveness to market forces through reduced emphasis on quantitative production goals and the use of profitability as the primary performance indicator.*
- *Gradual reduction of state budget subsidies to unprofitable enterprises, presumably allowing them to go bankrupt if necessary.*
- *Greater managerial autonomy over enterprise decision making, including the distribution of profits and investment.*
- *Expanded use of contracts to regulate relations between suppliers and buyers.*
- *Tying managerial and worker wages directly to enterprise profitability as an incentive to improve productivity and quality.*

*These measures apparently have not been implemented on a large scale, and the Bulgarian economy remains in most respects a conventional centrally planned system. The means of production remain under state ownership, and planners control most economic activity through allocation of so-called deficit materials—energy, raw materials, and capital.*

The first chairman of the BIEA, party Secretary and Politburo member Ognyan Doynov, 49, is widely viewed as a key proponent of economic reform and of increased reliance on Western technology as a means of improving economic performance. Doynov was

appointed Minister of Machine Building and Electronics in January 1984, suggesting that he and other architects of the NEM were moved into positions of direct control over economic activity. Following his appointment to the Cabinet, Doynov became honorary chairman of the BIEA, thereby maintaining his influence over the association's activities.

**Aid to Small Businesses**

The 1985 economic plan calls for the BIEA to oversee the allocation of 5 percent of total investment to small, consumer-oriented firms. According to one BIEA official, there are nearly 200 small enterprises (50 employees or less) operating mainly in food processing and light industry. BIEA officials are seeking Western cooperation in the project, mainly through licensing agreements. During the 1984 Plovdiv Industrial Fair, the BIEA sponsored a symposium on the small enterprise project and emphasized that Western equipment, managerial skills, and technical know-how were essential.

Sofia looks to the small state-controlled enterprises as the hope for overcoming systemic rigidity, and they probably are being used to experiment with economic reform. A major goal of the program is to improve responsiveness to consumer demand and to strengthen links between producers and the domestic market. The program ostensibly offers managers and workers greater authority in decisions on investment, innovation, and disposition of profits—though to what degree is uncertain. Sofia apparently hopes that

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reduced bureaucratic control will attract top-quality workers and foster technological and managerial innovation. It probably calculates that increased availability of consumer goods, coupled with a new system of wage incentives and bonuses, will eventually help alleviate the apathy and low productivity that plague industry. In its infancy, however, the small enterprise program has not significantly improved economic performance. [ ]

#### Technocrats Generate Controversy

The BIEA has developed into the Bulgarian version of a think tank whose innovative ideas have evoked criticism from orthodox members of the leadership. The BIEA staff of young technocrats generally advocates decentralization and a restructuring of industry toward such technology-intensive branches as robotics, biotechnology, and computers. One BIEA official went so far as to tell a Western diplomat that Bulgaria was not only backward but was also producing the wrong goods. Stressing the need to abandon raw material and energy-intensive industries, he stated, "We should move into computers. . . . Software is where the money is." [ ]

The BIEA's foreign activity has strained its relations with the traditional foreign trade organizations, the Ministry of Foreign Trade (MFT), and the Bulgarian Chamber of Commerce and Industry (BCCI). According to the US Embassy, an MFT official admitted that there is much rivalry between the BIEA and the MFT. The BIEA arouses BCCI ire by encroaching in trade promotions, exhibitions, and fairs. According to a Western observer, the BIEA is "battling" with the Central Statistical Office for the release of more comprehensive economic data, arguing that a more accurate picture of the economy is required to implement economic reforms. [ ]

BIEA Chairman Doynov has complained that many managers are implementing only those reforms they consider beneficial. In response, the BIEA is attempting to serve as a consultant to enterprise managers, conducting management seminars on NEM objectives and on problem solving. The US Embassy reports that the BIEA has discussed with at least two Western academic groups holding seminars on management, econometric modeling and forecasting, and Western business practices. [ ]

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#### *Small Enterprises in Bulgaria and Hungary*

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*Bulgaria's small enterprise program, under the stewardship of the BIEA, is one of the most significant examples of economic reform outside agriculture. In its current form, however, the program falls short of Hungary's thriving "second economy" both in terms of liberalization and economic impact. Several factors limit the efficiency and innovation the program is supposed to foster:*

- *In Bulgaria, the means of production in the small enterprises remain socialized property, whereas Hungarian entrepreneurs are allowed limited private ownership.*
- *Bulgaria's small enterprises are created to fill market gaps, especially in the consumer sector; they do not compete directly with larger state and cooperative enterprises.*
- *In Bulgaria, financing of the small firms is state controlled, unlike Hungary where an individual can get bank financing for capital investment.*
- *Only about 200 small enterprises are in operation in Bulgaria, compared to more than 30,000 in Hungary.* [ ]

*Sofia may gradually experiment with more liberal measures if the initial experience with small enterprises proves successful. For the indefinite future, however, Bulgaria's small enterprises will have a less significant impact on economic performance and living standards than the Hungarian program.* [ ]

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#### Progress and Prospects

BIEA efforts to improve Bulgaria's foreign trade practices appear to be making headway, but they have a long way to go. While Western businessmen report that they are now gaining greater access to Bulgarian buyers, they still complain that trade is complicated by pressures for countertrade, protracted negotiations, licensing procedures, and financing problems. Moreover, quality deficiencies continue to plague Bulgarian exports. [ ]

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Progress on economic reform also has been slow. Change to date has consisted mainly of cautious decentralization of enterprise management and some efforts to reduce bureaucratic interference. Although the NEM targets the reduction of government subsidies and the introduction of monetary incentives for workers, it has not yet attempted to deal with major issues like price reform, wage differentiation, allowance for bankruptcy, and reform of the banking system. [ ]

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Despite slow progress so far—Zhivkov privately concedes the gap between reform rhetoric and reality—Bulgarian leaders stress that they will not abandon the NEM. At least for the near term, Doynov and the BIEA appear likely to continue to wield substantial influence. Regime attitudes toward the small enterprise program will be an important barometer of its commitment to real economic reform. The entrepreneurial behavior promoted by the program could contribute significantly to the decentralization of enterprise management and to the reduction of traditional bureaucratic interference. [ ]

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The Gorbachev succession, moreover, may encourage more extensive Bulgarian reforms. Mixed signals from Moscow since the early 1980s have undoubtedly contributed to Bulgaria's timidity in pursuing needed reform. [ ]

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Gorbachev's ascension is a positive step, even though anticipated reforms in the CEMA trading system might initially be to Bulgaria's disadvantage. Most Bulgarian leaders appear to see Gorbachev as an economic reformer sympathetic to their desire for greater efficiency. [ ]

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## Economic News in Brief

### Western Europe

**Outlook good for continued West German price stability** . . . April inflation up just 2.5 percent over year earlier . . . 2.4 percent for first four months of 1985 . . . tight fiscal and monetary policy plus modest wage increases counteracted upward pressure from import prices, boosted by deutsche mark weakness against dollar.

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**China has signed preliminary agreement with West Germany's Kraftwerk Union** to buy four 1,000-megawatt nuclear reactors . . . total value almost \$2 billion . . . China wants to offset part of cost by accepting spent West German fuel but West Germany unlikely to agree, preferring recycling at home.

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### Eastern Europe

**Bulgaria's economy apparently not recovering** from first-quarter shortfalls despite new six-day workweek . . . Council of Ministers recently criticized economic performance for the first five months of 1985, citing inefficient use of industrial capacity . . . has ordered strict water conservation and round-the-clock irrigation in agriculture.

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